

BEFORE THE
FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C. 20554

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FEDERAL COMMUNICATIONS COMMISSION
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In the Matter of

Federal-State Joint Board on
Universal Service

Access Charge Reform

CC Docket No. 96-45

CC Docket No. 96-262

REPLY COMMENTS
of the
GENERAL SERVICES ADMINISTRATION

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Summary

In these Reply Comments, GSA responds to proposals by several carriers to determine high-cost support needs by using cost averages for study areas. GSA explains that the aggregate expenditures for high-cost support can be constrained without using broad averages for non-homogeneous areas. Also, GSA concurs with carriers who explain that programs using these averages pose barriers to competition.

In addition, GSA addresses proposals concerning the calculation and distribution of high-cost support. GSA explains that some of these plans would impair the development of competition benefiting end users. For example, GSA explains that the Commission should reject claims by some carriers that forward-looking cost models are not appropriate for determining high-cost support requirements.

Also, GSA urges the Commission to reject contentions by LECs that no specific intervention is necessary to ensure that high-cost funds are used for provision, maintenance, and upgrading of facilities and services for which support is intended. In addition, GSA recommends that the Commission not heed requests to implement hold-harmless provisions on a carrier-by-carrier basis. As competitors explain, such a procedure would do little to encourage additional LECs to enter high-cost markets, where competition is lagging significantly.

Finally, GSA concurs with competitive carriers that reductions in access charges should be implemented to compensate for any increases in high-cost support. Moreover, GSA explains that any revisions in access charges should be designed to reflect cost relationships. Contrary to some claims, the Commission should not revert to procedures that recover non-traffic sensitive costs with traffic sensitive access charges. Also, the Commission should heed incumbent carriers who explain that SLCs and PICCs should be adjusted to eliminate or reduce unjustified disparities for different types of subscriber lines.

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**REPLY COMMENTS
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GENERAL SERVICES ADMINISTRATION**

The General Services Administration ("GSA") submits these Reply Comments on behalf of the customer interests of all Federal Executive Agencies ("FEAs") in response to the Commission's Further Notice of Proposed Rulemaking ("Notice") released on May 28, 1999. In the Notice, the Commission seeks comments and replies on issues concerning universal service high-cost support and access charge reform.

I. INTRODUCTION

In consultation with the Federal-State Joint Board on Universal Service ("Joint Board"), the Commission has taken an important step in reforming the high-cost support procedures for non-rural local exchange carriers ("LECs").¹ In the *Seventh Report and Order*, the Commission describes a forward-looking methodology for

¹ Seventh Report and Order and Thirteenth Order on Reconsideration in CC Docket No. 96-45; and Fourth Report and Order in CC Docket No. 96-262; released jointly on May 28, 1999 ("*Seventh Report and Order*").

calculating universal service support for non-rural carriers providing services in high-cost areas. Procedures adopted in the *Seventh Report and Order* will be employed to determine Federal support amounts, and will not require states to institute an intrastate universal service support system. However, to minimize impacts on intrastate rates, the Commission has prescribed use of some type of "hold harmless" procedure to ensure that the amount of support under the new plan will be no less than that under existing Federal high-cost support programs.²

The Notice, which was issued concurrently with the *Seventh Report and Order*, seeks comments on issues concerning how the universal service support should be calculated and distributed. On July 23, 1999, GSA submitted Comments in response to the Notice to address issues concerning four topics:

- the areas over which costs should be averaged;
- restrictions on the application of support;
- portability of high-cost support; and
- adjusting interstate access charges to account for increases in explicit support.

In a separate Further Notice of Proposed Rulemaking ("Companion Notice") also released concurrently with the *Seventh Report and Order*, the Commission seeks comments on the input values for the model to be employed for determining the carriers' forward-looking costs. GSA has also submitted Comments and is submitting Reply Comments in response to the Companion Notice.

Twenty-five additional parties submitted comments in response to the Declaratory Ruling and Notice. These parties include:

- 12 incumbent local exchange carriers ("ILECs") and associations of these carriers;

² Notice, paras. 6-10.

- 7 competitive LECs, interexchange carriers, other carriers and associations of these carriers;
- 5 state regulatory agencies and groups of these agencies; and
- State Members of the Federal-State Joint Board on Universal Service.

In these Reply Comments, GSA responds to the positions advanced by these parties.

II. THE COMMISSION SHOULD REJECT PROPOSALS TO DETERMINE HIGH-COST SUPPORT NEEDS BY USING BROAD AVERAGES FOR STUDY AREAS.

A. Aggregate support costs can be limited without employing study area averages.

In the *Seventh Report and Order*, the Commission concludes that the need for high-cost support should be determined by using a cost-based benchmark.³ After considering the comments by many parties, the Commission decided to employ a benchmark based on the average forward-looking cost of providing the supported services.⁴ With this procedure, one of the most important decisions is the selection of the type of geographical area for which costs will be averaged for comparison with the benchmark.

Several larger carriers and several other parties contend that universal service support requirements should be determined using cost averages for study areas, which are usually defined as the entire service area for the LEC within the state. These parties contend that the current procedure of using study areas should not be modified because it is working well, and that continuation of this procedure will be less costly in the aggregate.

³ *Seventh Report and Order*, para 6.

⁴ *Id.*, para. 11.

For example, the People of the State of California and the California Public Utilities Commission ("California") contend that basing federal support on costs measured at the study area level is most likely to prevent substantial increases in the total financial needs for high-cost support.⁵ According to California's comments, the aggregate support requirements will be lower because higher cost regions will be averaged with lower cost regions within the study area.⁶

Ameritech is among the carriers contending that the Commission should continue to employ averages for study areas.⁷ Like several other large LECs, Ameritech contends that use of this averaging basis would limit the size of the fund.⁸ Ameritech advances the additional argument that the high-cost support mechanism for large carriers is now working well.⁹

GSA urges the Commission to reject claims that study area averages are necessary to limit the aggregate needs for high-cost support. As GSA explained in its Comments, the total cost can be controlled without losing the benefits of targeted support.¹⁰ If disaggregation results in a total program cost that is unacceptable, the funding requirements can be reduced by increasing the support threshold — that is, by cutting support to some mid-cost areas.¹¹ In fact, since support would be provided

⁵ Comments of the People of the State of California and the California Public Utilities Commission, p. 11.

⁶ *Id.*

⁷ Comments of Ameritech, pp. 1-2.

⁸ Comments of Bell Atlantic on Further Notice of Proposed Rulemaking, p. 5; Comments of Cincinnati Bell Telephone Co., p. 4; and Comments of Ameritech, p. 2.

⁹ Comments of Ameritech, p. 2.

¹⁰ Comments of GSA, p. 4.

¹¹ *Id.*

for fewer areas, the resulting distribution would be better targeted to those regions with the greatest costs of service.

The Commission has wide latitude in setting the benchmark to control the total funding level. The Joint Board contemplated a wide range by recommending that the benchmark be set at a level between 115 percent and 150 percent of the national average cost per line.¹² Indeed, one carrier suggests that if a 150 percent standard does not approximately maintain the current total level of support, the standard could be raised to 200 percent without unreasonably burdening consumers nationwide.¹³

B. Commenters explain that programs using broad averages pose barriers to competition.

In addition to claiming that study area averages would be more costly, Ameritech states that the present system is "working well." According to Ameritech, since there are no demonstrated defects, the existing system should not be modified.¹⁴

In support of its assertion that the present system is acceptable, Ameritech notes that the monthly charges for local service in many high-cost areas are below those in low cost areas.¹⁵ For example, Ameritech observes that the monthly service rate is \$24.67 in low-cost Baltimore, Maryland, but only \$19.69 in high-cost Butte, Montana.¹⁶ Ameritech also points to disparities for other pairs of localities.¹⁷

In spite of Ameritech's claims, such rate/cost disparities do not support continuation of the present mechanisms. To the contrary, these disparities demonstrate that changes are required. Most importantly, these disparities are one of

¹² Notice, para. 59.

¹³ Comments of AT&T on High-Cost Further Notice of Proposed Rulemaking, p. 11.

¹⁴ Comments of Ameritech, p. 11.

¹⁵ *Id.*, p. 4.

¹⁶ *Id.*

¹⁷ *Id.*

the major reasons why competition for local exchange services is not developing more quickly in some regions.

GSA explained in its Comments that averages should be developed only for reasonably homogeneous areas.¹⁸ The service area of a LEC within a state will nearly always encompass widely disparate parts — ranging from densely populated regions where the unit costs are relatively low to sparsely developed regions where the unit costs are much greater. Since competition has developed more rapidly in densely populated regions, a study area will almost always encompass places with far different levels of competitive activity. Thus, averages for a study area will usually not be representative of the costs or the competitive conditions in most of its constituent parts.

In its comments on behalf of independent telephone companies serving rural areas, ITC, Inc. explains why study area averages have not worked. ITC states:

In any event, using present day large company study areas does not solve the current problem, it only reduces the fund size to a politically acceptable level. A significant competitive inequity still exists. Further, it must be remembered that a key to the co-existence of competition and universal service policies is to remove all forms of support from rates, particularly where competition will occur.¹⁹

Moreover, it is important that efforts to hold support levels to a fixed benchmark not inhibit the ability to address the needs of all areas and types of carriers. As the Personal Communications Industry Association explains, “using relatively large study areas will erect virtually insurmountable barriers to carriers other than incumbent LECs who may wish to provide universal service in high-cost areas, thus severely

¹⁸ Comments of GSA, pp. 6-7.

¹⁹ Comments of ITC, Inc., p. 5.

undercutting principles of competitive neutrality.”²⁰ As GSA has explained, it is important for the Commission to foster competitive opportunities by employing wire center averages or even greater levels of disaggregation for computing universal service requirements.²¹

In summary, smaller averaging areas will produce more precise results that will promote competition. By allowing the incumbent carrier’s rates to reflect costs more accurately, explicit and better-targeted support will provide more incentives for competitors to expand their service offerings beyond urban areas and business centers. To ensure these benefits, GSA urges the Commission not to adopt the use of study area averages in determining the levels of universal service support.

C. Notwithstanding carriers’ claims, forward-looking costs should be employed to determine high-cost support requirements.

The controversy between use of forward-looking cost models and “actual” costs still continues at this advanced stage of the proceeding. Some responding carriers still contend that forward-looking costs should not be employed to determine the requirements for high-cost support. For example, SBC Communications (“SBC”) asserts that the use of forward-looking costs is “wholly inappropriate in the determination of universal service support.”²² According to SBC, the forward-looking cost model platform adopted by the Commission “fails to meet the requirements that the universal service support mechanism be specific, predictable, and sufficient.”²³

In similar comments, the United States Telephone Association (“USTA”) states that it continues to oppose use of a forward-looking economic cost model to size the

²⁰ Comments of the Personal Communications Industry Association, p. 4.

²¹ Comments of GSA, p. 7.

²² Comments of SBC Communications, p. 2.

²³ *Id.*, citing *Communications Act of 1934* as amended, 47 U.S.C. 254(b)(5).

universal service fund for non-rural carriers.²⁴ USTA continues by claiming that a firm's ability to survive and function in a dynamic, competitive environment depends upon "real costs governed by real market and regulatory circumstances."²⁵ Since, according the USTA, the forward-looking model postulated by the Commission is purely speculative, it cannot be used to represent real costs for policy-making purposes.²⁶

The Commission has rejected these claims many times. In the *Local Competition Order* in 1996, the Commission determined that unbundled network elements ("UNEs") as well as interconnection services should be priced on the basis of forward-looking economic costs.²⁷ The Commission's rationale for using forward-looking costs as the foundation for pricing UNEs and interconnection services supports the same cost approach in assessing the needs of non-rural carriers for high-cost support.

Moreover, in its *Universal Service Order* released in 1997, the Commission adopted the Joint Board's recommendation to determine high-cost support for non-rural carriers based on forward-looking economic costs.²⁸ Again, the Commission reaffirmed this position in its Second Recommended Decision in the instant case released on November 23, 1998. In that decision, the Commission stated that use of

²⁴ Comments of USTA, p. 2.

²⁵ *Id.*, p. 4.

²⁶ *Id.*

²⁷ *Implementation of the Local Competition Provisions in the Telecommunications Act of 1996*, First Report and Order, 11 FCC Rcd. 15499 (1996), *vacated in part*, *Iowa Utils. Bd. v. FCC*, 120 F.3d 753 (8th Cir. 1997), *rev'd in part, aff'd in part*, *AT&T Corp. v. Iowa Utils Bd.*, 119 S. Ct 721 (1999) at paras. 999-1026..

²⁸ Federal-State Joint Board on Universal Service, CC Docket No. 96-45, *Report and Order*, 12 FCC Rcd 8776 (1997) ("*Universal Service Order*"), as corrected by Federal-State Joint Board on Universal Service, *Errata*, CC Docket No. 96-45, FCC 97-157 (rel. June 4, 1997), appeal pending in *Texas Office of Public Utility Counsel v. FCC*, No. 97-60421 (5th Cir. 1997).

forward-looking costs sends the correct signals for entry into telecommunications markets and for investment in telecommunications services.²⁹

Most recently, in the *Seventh Report and Order* released with the instant Notice, the Commission has indicated that the use of forward-looking costs is no longer an open issue. The *Seventh Report and Order* states:

We will use a national, cost-based benchmark set at a percentage of the national average forward-looking cost of providing the supported services as the first step in determining the amount of support to be provided.³⁰

GSA urges the Commission not to modify this selection in view of the observations by parties that improvements must be made in the forward-looking cost models.

Indeed, forward-looking cost models are evolving with significant improvements. The Commission is concurrently reviewing these models, and GSA is among many parties submitting Comments and Reply Comments addressing the model inputs and formulas.³¹ These models should not be discarded in favor of approaches that rely on current plant designs — configurations that have resulted from decisions well in the past. Also, forward-looking cost models should not be rejected in favor of models that employ data or relationships that are alleged to be “proprietary” by carriers.

As GSA has explained previously in this proceeding, models used to compute high-cost support requirements should be publicly available, employ data and formulas that can be verified independently, and be able to produce identical results

²⁹ Second Recommended Decision, para. 12.

³⁰ *Seventh Report and Order*, para. 11.

³¹ *In the Matter of Federal-State Joint Board on Universal Service and Forward-Looking Mechanism for High-Cost Support for Non-Rural LECs*, CC Docket Nos., 96-45 and 97-160, Comments of GSA, July 23, 1999 and Reply Comments of GSA, August 6, 1999.

when the same inputs are used again.³² Without these characteristics, cost models are not likely to produce accurate estimates.

The modeling procedures advocated by a number of incumbent local exchange carriers in lieu of forward-looking cost models often lack these vital characteristics. As GSA has explained, the input data are not generally available, and the models rely heavily on this "proprietary" information.³³

Unquestionably, the Commission should employ forward-looking models to determine the needs for high-cost support. These models now feature improved and more flexible structures; they are easier to use; and they produce more verifiable, reliable and accurate estimates of future conditions.

III. CONTRARY TO ASSERTIONS BY SEVERAL CARRIERS, THE COMMISSION SHOULD ENSURE THAT UNIVERSAL SERVICE FUNDS ARE USED AS CONTEMPLATED BY THE LEGISLATION.

The Telecommunications Act requires that a carrier receiving universal service support may use the support only for the provision, maintenance, and upgrading of facilities and services for which support is intended.³⁴ The Commission seeks comments on whether making Federal support available as carrier revenue, to be considered by state regulators in setting the rates and charges for local telecommunications services, will satisfy the requirements of the legislation.³⁵

Several parties submitting comments in response to the Notice contend that the Commission should assume a *laissez faire* posture in enforcing the requirements

³² *In the Matter of Federal-State Joint Board on Universal Service*, CC Docket No. 96-45 and DA 98-2410, Comments of GSA, December 23, 1998, p. 9.

³³ *Id.*

³⁴ Telecommunications Act of 1996, Pub. L. No. 104-104, 110 Stat. 56, *codified at* 47 U.S.C. §§ 151 et seq. ("Telecommunications Act"), Section 254(e).

³⁵ Notice, para. 114.

concerning use of universal service support. For example, GTE asserts that accounting or certification requirements are not necessary.³⁶ According to GTE, as long as universal service funding is portable and distributed on a geographically disaggregated basis, LECs receiving high-cost funding will have a "strong incentive" to use the funds only in high-cost areas.³⁷ If the LECs use the funds for other purposes, customers will switch to a competing carrier.³⁸

In its submission, USTA also contends that the conditions that funding is portable among carriers and distributed on a geographically disaggregated basis are sufficient to achieve the statutory objectives.³⁹ USTA continues by asserting that if a carrier were to use universal service funds for purposes other than what is intended, its rates would increase and customers "would switch to another carrier, and the original carrier would lose the support."⁴⁰ Thus, according to USTA's logic, such a "competitive situation" assures that carriers will use the support received as contemplated by the statute.⁴¹

These claims that regulatory participation is unnecessary rest on an erroneous assumption — that a competitive situation almost certainly exists. What if there are no competing carriers in a market, which indeed is all the more likely if the incumbent carrier can use universal service funds as it decides? Moreover, even if there is some competition, it is not clear that end users will be able to monitor how the incumbent

³⁶ Comments of GTE, p. 33.

³⁷ *Id.*

³⁸ *Id.*

³⁹ Comments of USTA, p. 7.

⁴⁰ *Id.*

⁴¹ *Id.*

carrier is spending the universal service support, in order to have the data necessary to make an informed decision as to whether or not to change service providers.

GSA explained that the act of making funds available does not go far enough in fulfilling the requirement of the legislation that universal service support be used only for the intended purpose.⁴² From its perspective as an end user concerned with the ability to obtain high-quality services from as many potential competitors as possible, GSA urged the Commission to adopt definitive requirements that universal service support be used to provide, maintain and upgrade facilities and services in the high-cost areas, and for no other purpose.⁴³

Comments filed by the Texas Office of Public Utility Counsel, the Consumer Federation of America, the National Association of State Utility Consumer Advocates, and the Consumers Union ("Joint Commenters") demonstrate why it is important for the Commission to act, rather than depend on state regulators.⁴⁴ The Joint Commenters explain that most states have moved away from forms of regulation that provide effective control over the activities of the larger telephone companies under their jurisdiction.⁴⁵

The problem is compounded because universal service support should be portable among all carriers. GVNW Consulting, Inc. ("GVNW"), a firm providing consulting services to independent telephone companies, notes that "the ability of states to regulate the activities of competitive LECs is at best problematic."⁴⁶

⁴² Comments of GSA, pp. 8-9.

⁴³ *Id.*, p. 9.

⁴⁴ Submission of Joint Commenters, pp. 30-34.

⁴⁵ *Id.*, pp. 31-32.

⁴⁶ Comments of GVNW, p. 10 (emphasis supplied.)

Moreover, GVNW observes that in a number of jurisdictions there is no state regulatory authority whatsoever with respect to wireless services.⁴⁷

Indeed, comments demonstrate that state regulators have limited power to force major incumbent carriers to designate universal service funds for projects that will help increase the availability of telecommunications services. Since the tools in the hands of state regulators are limited, the Commission should act to ensure that the requirements of the legislation are fulfilled.

IV. THE COMMISSION SHOULD NOT HEED REQUESTS TO IMPLEMENT HOLD HARMLESS PROVISIONS ON A CARRIER BASIS.

In the *Seventh Report and Order* the Commission adopts a “hold-harmless” provision to prevent reductions of Federal support and potentially significant increases in prices for local telecommunications services.⁴⁸ As originally contained in the *Second Recommended Decision*, the hold-harmless clause stated that a non-rural carrier would receive no less high-cost assistance than it currently receives from explicit support mechanisms.⁴⁹ In the Notice, the Commission seeks comments on whether a hold-harmless provision should be implemented on a state-by-state or a carrier-by-carrier basis.⁵⁰

Several of the large incumbent LECs contend that the hold-harmless provision should be administered on a carrier basis. For example, SBC Communications asserts, “Any hold-harmless provision should be based on a carrier-by-carrier approach. A state-by-state approach would simply add another level of bureaucracy

⁴⁷ *Id.*

⁴⁸ Notice, para. 68.

⁴⁹ Second Recommended Decision, paras. 12-14.

⁵⁰ Notice, para 117.

without achieving any discernible benefit”⁵¹ Another incumbent, GTE, supports use of the carrier-by-carrier approach because applying the hold-harmless principle on this basis is “necessary in order to avoid an unwarranted decrease in support for consumers in a study area.”⁵²

Contrary to these assertions, it is not necessary to apply hold-harmless provisions on a carrier basis in order to maintain a constant level of support in a region. If multiple carriers are beginning to serve an area, the total support for the area can be maintained by giving support to all carriers in proportion to their subscribership. Indeed, as GSA explained in its Comments, if an incumbent LEC is losing subscribers to a competitive LEC (or one competitive LEC is losing customers to another competitive LEC) in an area, the carrier with a reduction in subscriber base should receive less funding and the carrier with an increasing base should receive correspondingly additional funding.⁵³ Regardless of whether a study area or a smaller geographical area is employed, support can be held constant for the region by allocating the funds designated for all eligible carriers in a region based on the number of revenue-producing subscriber lines that they serve.

The Commission has stated that a procedure holding the incumbent LEC harmless for the high-cost support that they lose when a customer elects to switch carriers would contravene the Joint Board’s desire that competitive neutrality be a significant driving force behind universal service reform.⁵⁴ GSA concurs with this finding. Moreover, by applying the hold-harmless provision on an area basis, the Commission can take advantage of an excellent opportunity for motivating additional

⁵¹ Comments of SBC Communications, p. 10.

⁵² Comments of GTE, p. 36.

⁵³ Comments of GSA, p. 10.

⁵⁴ *Seventh Report and Order*, para. 74.

LECs to enter high-cost markets, where competition is now developing very slowly, if at all.

V. COMPETITIVE CARRIERS CONFIRM THAT REDUCTIONS IN ACCESS CHARGES SHOULD BE REQUIRED TO COMPENSATE FOR INCREASES IN HIGH-COST SUPPORT.

As described in the Notice, the Commission advances the tentative conclusion that it should require LECs under price cap regulation to reduce their interstate access charges if they receive increases in explicit Federal high-cost support.⁵⁵ This policy is important for end users because the interests of more competition will not be served by providing incumbent LECs with a windfall resulting from modifications to the high-cost support system.⁵⁶ As GSA explained, net revenue increases are certainly not appropriate for LECs in view of the sharp increases in their earnings in recent years.⁵⁷

With high and increasing levels of profitability, incumbent LECs side-step the issue of the overall level of access charges. USTA mentions that access charges "provide implicit support for universal service."⁵⁸ As discussed previously in these Reply Comments, Ameritech states that no changes are required because the existing systems are "working."⁵⁹

Comments by competitive LECs set the record straight. The Competitive Telecommunications Association ("CTA") explains:

There is no dispute that interstate access charges are billions of dollars higher than the ILECs' exchange access costs. For many

⁵⁵ Notice, para. 130.

⁵⁶ Comments of GSA, p. 12.

⁵⁷ *Id.*

⁵⁸ Comments of USTA, p. 8.

⁵⁹ Comments of Ameritech, p. 2.

years, the only rationale offered by the ILECs for such a massive subsidy is that it implicitly funded universal service.⁶⁰

CTA continues by urging the Commission to immediately remove all above-cost elements of access rates. One procedure for implementing this policy in the context of the current proceeding would be to require price cap LECs with earnings levels above the presently prescribed unitary rate of return to reduce their interstate access charges if they receive additional explicit Federal high-cost support.⁶¹

VI. MODIFICATIONS IN ACCESS CHARGE STRUCTURES SHOULD BE DESIGNED TO REFLECT COST RELATIONSHIPS.

A. The Commission should not revert to procedures that recover non-traffic sensitive costs with per-minute access charges.

The Notice contains the tentative conclusion that any reductions in access charges should be implemented by requiring carriers to make downward adjustments to the revenue requirements of their common line baskets.⁶² The principal rate elements for switched access services in the common line basket are the presubscribed interexchange carrier charge ("PICC") and the end user common line charge, usually called the subscriber line charge ("SLC").⁶³ Under the procedures that the Commission outlines, the initial effect of a reduction in the revenue requirement for the common line basket is to reduce the aggregate revenue recovery for SLCs and for

⁶⁰ Comments of CTA, p. 6.

⁶¹ The Commission issued a Notice Initiating a Prescription Proceeding *In the Matter of Prescribing the Authorized Rate of Return for Interstate Services of Local exchange Carriers*, CC Docket No. 98-166 on October 5, 1998. GSA submitted Comments in response to that request on January 19, 1999 and Reply Comments on March 16, 1999. In those submissions, GSA explained that changes in the financial markets and increased opportunities for the incumbent carriers indicate a reduction in the existing 11.25 percent unitary rate of return to 9.5 percent (GSA Comments, p. 22).

⁶² Notice, para. 130.

⁶³ *Id.*, § 69.152 and 69.153.

multi-line PICCs.⁶⁴ In the longer run, the effect will be to defer scheduled increases in the residential and single-line business PICCs.⁶⁵

GSA explained in its Comments that a reduction in the revenue requirement for the common line basket will give the Commission a valuable opportunity to reduce disparities for SLCs and PICCs among different groups of customers.⁶⁶ However, with the reduction in revenue requirement for the basket, the Commission should not eliminate the fixed monthly elements of access charges, as one commenting party suggests.

The Joint Commenters assert that as telecommunications markets become more competitive, the Commission must move towards the elimination of the SLC.⁶⁷ Indeed, with implied reference to the PICC as well, the Joint Commenters claim that “the SLC and other fixed charges” make no sense in a competitive market.⁶⁸ The Joint Commenters also contend that there is no way for the either the Commission or state regulators to know whether any fixed monthly charge amount, either \$3.50 (the current monthly cap for primary residential lines) or any higher value is just and reasonable.⁶⁹ Consequently, according to the Joint Commenters, the most equitable policy is to give carriers full flexibility to recover the costs of the local loop from all services in the rates they charge each other and their customers.⁷⁰

⁶⁴ Notice, para. 130.

⁶⁵ *Id.*

⁶⁶ Comments of GSA, p. 13.

⁶⁷ Submission of Joint Commenters, p. 22.

⁶⁸ *Id.*, p. 22.

⁶⁹ *Id.*

⁷⁰ *Id.*

The recommendation by the Joint Commenters amounts to letting LECs “bury” the costs of the local loop completely. Untrammelled, carriers would undoubtedly resort to recovery of the majority of local loop costs through usage-sensitive charges, because most services are currently charged that way. Thus, recovery of the costs of local access facilities would revert to the procedure employed before access reform even started.

The same economically inefficient access structure — recovering a substantial part of local loop costs with traffic sensitive revenue — was used for the LECs under price cap regulation before the PICC was instituted. Wisely, the Commission revised the access charge structures for those carriers, noting that the implicit subsidies they contained could not be sustained in a competitive environment.⁷¹ The Commission reduced dependence on usage-based charges to recover non-traffic sensitive costs by increasing the SLC caps for some lines, and by instituting a new charge — called the presubscribed interexchange carrier charge (“PICC”) — levied on interexchange carriers. While the present system could be improved further, it offers the essential feature of sharply reduced dependence on usage charges to recover non-traffic sensitive costs. GSA urges the Commission not to revert to the economically inefficient procedures.

B. Incumbent carriers explain that inequities in the access charges for multi-line subscribers must be eliminated.

GSA explained in its Comments that a reduction in the multi-line PICC is justified.⁷² At the end of 1998, the PICC for multi-line business customers averaged

⁷¹ *Id.*, para. 32.

⁷² Comments of GSA, p. 13.

nearly five times that for residential and single-line business users.⁷³ There is no cost basis for any difference, so the initial reduction in multi-line PICCs will help to eliminate a major unjustified disparity.

A reduction in the aggregate revenue requirement for SLCs will also benefit end users. The SLCs also vary significantly by type of line. As GSA explained, the average SLC for multi-line business customers was two times that for primary residential lines at the end of 1998.⁷⁴ As with the PICCs, there is no cost basis for any disparities among lines for the different groups of subscribers. Therefore, if the overall amount of revenue to be obtained from SLCs is diminished, the emphasis should be on reductions in the SLCs for business multi-lines. Any reduction in the SLCs for residence and business single lines should be balanced by reductions in the SLCs for the other types of lines.

Several incumbent LECs explain the need to rebalance charges for the different groups of customers in a competitive environment. For example, SBC Communications states:

The universal service rates paid by the vast majority of residence customers are subsidized through implicit support mechanisms. ... In fact, revenues generated by business services primarily provide the implicit support necessary. However, in a competitive environment, it is essential that the link between residence cost recovery and business revenues be eliminated.⁷⁵

SBC continues by observing that while this goal cannot be accomplished at once, any steps towards this end will serve public policy by minimizing the overall level of implicit support.⁷⁶

⁷³ *Id.*, citing *Monitoring Report Prepared by the Federal and State Staff for the Federal-State Joint Board*, December 1998, Table 7.14.

⁷⁴ Comments of GSA, p. 14.

⁷⁵ Comments of SBC Communications, p. 10.

⁷⁶ *Id.*, pp. 10-11.

U S WEST also explains the necessity for aligning business and residence rates. At the outset, this carrier states that any reductions should be targeted to remove implicit support from the LECs' rate structures.⁷⁷ U S WEST continues by explaining that to accomplish this end, prices should first be reduced on those rate elements that provide implicit support, emphasizing reductions that will foster local competition.⁷⁸ Specifically, U S WEST states:

Rather than reducing the primary and/or single line SLCs, reductions should be applied to [business] multi-line and [residential] non-primary SLCs.⁷⁹

U S WEST explains that these proposals are in concert with the spirit of the Joint Board's guidelines because they reduce implicit support and encourage the development of competition in providing local exchange services.⁸⁰

GSA concurs with the positions expressed by SBC Communications and U S WEST concerning the need to realign access charges. GSA has urged the Commission to adopt access charges and rate structures that closely reflect the underlying costs as quickly as possible.⁸¹ As GSA explained, access rate structures that deviate substantially from costs are one of most important barriers to open competition for telecommunications services.⁸²

⁷⁷ Comments of U S WEST, Inc., p. 33.

⁷⁸ *Id.*

⁷⁹ *Id.*

⁸⁰ *Id.*, p. 34.

⁸¹ *In the Matter of Access Charge Reform for Incumbent Local Exchange Carriers Subject to Rate of Return Regulation*, CC Docket No. 98-77, Comments of GSA, July 17, 1998, pp. 2-6.

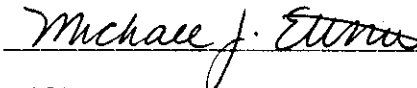
⁸² *Id.*

VII. CONCLUSION

As a major user of telecommunications services, GSA urges the Commission to implement the recommendations set forth in these Reply Comments.

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